



# Foster City Financial Update 4Q 12/13

City of Foster City

For the Year Ended  
June 30, 2013

## General Fund Finishes FY 2012-2013 with \$19.2 million in Reserves; Sales Tax Revenues Fall but Property and Hotel Taxes Higher

The City's General Fund, which pays for the City's primary services such as Police, Fire, Parks & Recreation, Public Works Maintenance and Administration, finished FY 2012-2013 at \$19.2 million, which was approximately \$1.8 million higher than anticipated when the FY 2013-2014 budget was adopted. The favorable variance resulted primarily from expenditure savings of \$1.9 million that is not projected in the following year's budget when prepared to ensure that sufficient resources are available to accomplish the City's goals.

General Fund revenues finished the year \$1.4 million higher than the original budget estimates. The largest component that led to the favorable cash-flow was the category of property taxes, which was \$1.9 million higher than the original forecast. The basis upon which property taxes are collected - Assessed valuation - was higher than the original forecast as the Assessors' Office had reversed prior assessment appeals by property owners (primarily commercial properties), increasing the assessed valuation of those properties and leading to a better-than expected property tax collection of \$750,000. Also as reported in the prior quarterly report, the City received a \$1.1 million payment from the County Controller's Office of Education Revenue Augmentation Funds (ERAF) that were collected in excess of the actual amounts required by State law. Those funds are collected based on estimates, and a very complex calculation is performed

each year by the Controller to determine actual ERAF payments owed to the schools. This year's "refund" back to the City was somewhat larger than in prior years, however it is expected that these refunds will shrink significantly in the coming years. The City has not budgeted these excess ERAF payments as they have never been predictable nor "guaranteed."

A brief recap of other specific revenue sources follows:

- ⊗ Sales Taxes - the loss of the largest sales tax producer as reported in the previous quarter led to sales tax revenue missing the target by nearly \$570,000.
- ☺ Transient Occupancy Taxes - higher-than-anticipated occupancy at the local hotels led to TOT projections \$170,000 better than expected.
- ☺ Franchise Taxes - a drop in franchise revenues from PG&E due to reduction in energy prices and consumption was offset by the increase in the Recology franchise rate from 5% to 10% on January 1, 2013.
- ☺ Real Property Transfer Tax - actual collections were greater than the original forecast by \$155,000 due primarily to the sale of the Electronics for Imaging property to Gil-ead Sciences and increasing median home prices of single-family and townhome residences.

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### Included in this report:

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### Highlights:

- Positive financial results in FY 2012-2013 leave the City's General Fund with \$19.2 million in reserves, \$1.8 million ahead of expectations.
- Development activities are progressing earlier than anticipated, which will bode well for future revenue forecasts.
- CalPERS' revised rate smoothing policy will see pension costs rise by over 30% in the coming 5 years.
- Real estate prices are rebounding, having a positive impact on future property tax projections and development potential.



## General Fund Finishes FY 2012-2013 with \$19.2 Million in Reserves

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- ⊖ **Recreation Programs** - revenues were \$178,000 lower than expectations, however, related expenditures were \$157,000 lower than original budget, all due to lower-than-anticipated enrollment in recreation classes. All told, the subsidy for Recreation programs was \$211,000, about \$3,000 less than the original forecast.
- ⊖ **Permits** - recurring building permit revenue (excluding significant development) fell \$150,000 short of original projections, and the timing of the submittal of building permit revenue by Gilead Sciences and Pilgrim-Triton in the prior year led to the remaining deficit in permit revenue totaling \$526,000.

- ⊖ **Interest Income** - interest rates have slightly increased in the past quarter, but have fallen from the original projections. Current investment yield on the City's portfolio is 0.867% and is not expected to improve significantly over the next year given the fixed income investment market conditions.

The recovery of property tax and hotel taxes will have a positive impact on the City's financial future, however the loss of nearly \$1 million annually due to the loss of the City's largest sales tax producer will need to be overcome with future development and a focus on economic development initiatives that can attempt to replace that lost revenue and maintain a thriving local economy.

## Budgetary Savings in General Fund Expenditures of \$1.9 million Realized for FY 2012-2013

General Fund expenditures came in \$1.9 million lower than the original budget due to staff vacancies and the diligence of City staff in ensuring that only those expenditures necessary to achieve the organization's objectives were spent.

A brief recap of the most significant savings realized in FY 2012-2013 follows:

- ◆ **Administrative Support Departments** - the City Council authorized staff to outsource FCTV services when the Video Technician position became vacant (\$40,000 savings). Furthermore, the Financial Services Department experienced turnover and backfilled the vacancy through overtime primarily at the managerial level (over \$25,000 in savings).
- ◆ **Parks & Recreation** - significant savings of nearly \$150,000 came from a reduction in water consumption in City parks, lower-than-anticipated costs for contracted landscaping services for the City's medians, and prudent application of maintenance supplies necessary to keep the City parks in excellent condition.
- ◆ **Police** - temporary vacancies at the Officer level due to turnover within the organization led to

overall departmental savings of \$150,000

- ◆ **Fire** - the sharing of fire administration and prevention services with the City of San Mateo continues to progress. The Assistant Fire Marshal position and two (2) Battalion Chief positions were eliminated due to earlier-than-anticipated retirements. Offsetting these reduced costs was the approval to hire a Administrative Battalion Chief to support the management of the Foster City fire operations. Net expenditure savings totaled \$790,000, which are not expected to repeat themselves in future years as the budget has been reduced for FY 2013-2014 based on the changes indicated above.
- ◆ **Public Works** - total savings from the revised budget totaling \$367,000 were realized based on prudent spending of maintenance supplies in the Lagoon and Streets divisions and savings from consulting services that were not necessary to the extent anticipated in the original budget.
- ◆ **Special Recreation Fund** - as indicated earlier, expenditures in the Special Recreation Fund fell below budget due to enrollments in programs lower than the original budget. Expenditures were \$157,000 lower than the original budget.



## Focus on Fund Balances Going Into FY 2013-2014

The chart to the right shows the health of the City's various funds. The total fund balances available to carry on the purposes for the respective funds, in total, exceed the projections in the adopted FY 2013-2014 budget. The City will have the ability to fund its service level initiatives to help ensure that Foster City continues to be a great place to live, work and play!

The City's CIP fund finished higher than anticipated due to the successful completion and close out of various projects and will be taken into account in the long-term funding of the City CIP needs in future years.

Gas Tax revenues did not achieve forecasts, and the Longevity Recognition and PEMHCA Funds' investment portfolio values fell due to a market correction at June 30 as the year closed (but has subsequently bounced back after year end), explaining their respective negative variances.

Fund Balances - Projected vs. Actual for FY 2013-2014			
Fund	Original Projections in FY 2013-2014 Budget	Actual Balances at July 1, 2013	Variance - Positive (Negative)
<b>General Fund</b>	\$ 17,470,000	\$ 19,230,000	\$ 1,760,000
<b>Special Revenues</b>			
Measure A	2,090,000	2,383,000	293,000
Gas Tax	829,500	749,000	(80,500)
Affordable Housing	3,570,500	3,693,000	122,500
Others	624,900	531,000	(93,900)
<b>Total Special Revenue</b>	7,114,900	7,356,000	241,100
<b>CIP Funds</b>			
City CIP	1,350,000	2,580,000	1,230,000
Cap Asset Acq and Repl	1,542,000	1,548,000	6,000
<b>Total CIP Funds</b>	2,892,000	4,128,000	1,236,000
<b>Enterprise Funds</b>			
Water ERF and CIP	8,753,000	8,818,000	65,000
Wastewater ERF and CIP	13,808,000	14,541,000	733,000
<b>Total Enterprise Funds</b>	22,561,000	23,359,000	798,000
<b>Internal Service Funds</b>	28,057,300	27,867,000	(190,300)
<b>Total - All Funds</b>	\$ 78,095,200	\$ 81,940,000	\$ 3,844,800

## The Latest on Development Projects in Foster City

Here is a quick update on key development projects:

- ◆ 15-Acre Site - The New Home Company, LLC and the City are expected to complete negotiations on a development and disposition agreement on the City-owned property that will be brought to the City Council for approval in November 2013.
- ◆ Pilgrim-Triton - "The Plaza at Triton Park" is at nearly 90% occupancy. "Triton Pointe" is expected to start construction in October 2013. Discussions are underway with the developers of "Phases B and C" to finalize site specific development agreements in the coming year.
- ◆ Gilead Sciences - Gilead continues development of its South Campus and is expected to start construction of a second lab building in the next year. Approval of the Integrated Campus Master Plan (combining the South Campus with the recently acquired North Campus) will be brought to the City Council in October 2013.
- ◆ Extended Stay Hotel - the proposed 121-unit extended stay hotel received City Council approval in August 2013 with construction expected to start in 2014.
- ◆ Chess-Hatch - the developer in the Chess-Hatch area immediately north of 92 received approval of its 800,000 square foot development in August 2013. Use permit applications for the property have been submitted, but construction will not commence until a tenant is found.
- ◆ Retail / Neighborhood Shopping Centers - the City's commercial / retail consultant who is studying the commercial / retail needs in the City, including an assessment of the City's neighborhood shopping centers, will be presenting its findings to the City Council in November 2013.



### City of Foster City

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## Sustainable Foster City:

*Sustaining and Enhancing the Quality of Life in Foster City*



## And the Beat Goes On ... Key Federal, State, and Local Issues Impacting Foster City's Financial Future

As the City minds its store in terms of financial management and economic development, externalities play a key role in the City's financial future. These four (4) issues will be watched closely over the next several months and quarters.

### The Federal Deficit Saga Continues...

Congress and the President once again face another crisis in dealing with the federal deficit and the debt ceiling. While the House and the Senate look at passing juxtaposed bills that demonstrate the partisan views on the role of government and fiscal policy, the Federal Government once again may face the reality of shutting down all but the most essential services due to the lack of budget authorization. While there may be little or no impact of a short shutdown (which is what most economists are expecting as a worse case), any prolonged debate on the federal deficit without a budget solution could have a negative impact on the national economy.

### Real Estate Prices Rebound

The following chart shows how real estate prices and activity for single family (SFR) and multi-family (MFR) residential property have grown since the Recession "hit bot-

tom" in 2011. While the jury is still out in terms of 2013 results, the activity through June 2013 bodes well for real estate prices and, thus, property taxes in Foster City in the near future. (Data courtesy of the San Mateo County Association of Realtors)

### CalPERS Changes its Smoothing Policy - Increases in Employer Rates Expected in FY 2015-2016

As reported in the last quarterly report, CalPERS changed its rate smoothing policy such that the City expects that its employer pension rates will begin to increase starting in FY 2015-2016. The current projections anticipate the employer rates for public safety to increase from 32.9% in FY 2014-2015 to 41.4% in FY 2019-2020. For the Miscellaneous Plan, the employer rate is expected to increase from 20.1% in FY 2014-2015 to 25.6% in FY 2019-2020. The City will receive its Actuarial Report from CalPERS in November 2013 and will have a better sense of what is in store relative to future pension costs.

### Ballot Measures with Significance to Foster City

Measure U will have direct impact on Foster City, as this is the Measure that the City Council unanimously placed on the ballot to update its business license tax ordinance for the first time since 1971. If approved by a majority (50%+1) of voters, the City expects to realize up to \$700,000 per year by the time the new revenue limits would go into effect in 2016.

Measure P is a ballot measure of the San Mateo-Foster City School District that would issue \$130 million in bonds, a portion of which would be used to redevelop Bowditch Middle School that would help address overcrowding in local schools. The City Council adopted a resolution in support of Measure P. Election Day is November 5, 2013.

